

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
SEPTEMBER 2015**

**CON REVIEW NUMBER: NH-CO-0215-002
HARRISON COUNTY PROPERTIES, LLC D/B/A
GULFPORT CARE CENTER
COSTOVERRUN TO CON #R-0819 (CON REVIEW NUMBER: NH-RLS-0110-001)
CONSTRUCTION OF 90 NURSING HOME BEDS IN HARRISON COUNTY, MISSISSIPPI
APPROVED CAPITAL EXPENDITURE: \$7,178,929
ADDITIONAL CAPITAL EXPENDITURE: \$715,516
TOTAL CAPITAL EXPENDITURE: \$7,894,445
LOCATION: GULFPORT, HARRISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Harrison County Properties, LLC d/b/a Gulfport Care Center is a Mississippi limited liability company formed April 24, 2009. The applicant states that since the original CON approval, there was a change in the Trustees of The Elton G. Beebe, Jr. Irrevocable Family Mortgage Trust, which is the sole member of Harrison County Properties, LLC. The current Trustees are Hibernia W. Williams and Elton Glynn Beebe, Jr.

B. Project Background

Harrison County Properties, LLC d/b/a Gulfport Care was granted Certificate of Need (CON) Number R-0819 for the construction of 90 nursing home beds in Harrison County, Mississippi. The effective date of the CON was August 26, 2010, with an expiration date of August 26, 2011.

The following dates give a timeline regarding this CON application (CON #R-0819):

- On September 15, 2010 Opponents (certain nursing homes on the Coast) filed an Appeal in The Chancery Court for the First Judicial District of Hinds County, Mississippi of the Department's Final Order issued on August 26, 2010, in CON Review NH-RLS-0110-001, Harrison County Properties, LLC d/b/a Gulfport Care, construction of 90 nursing home beds in Harrison County, Mississippi.
- On July 26, 2011 notified the Department that the Final Order and the CON are currently on appeal to the Mississippi Supreme Court, and consequently, any construction work and other activities related to the CON have been stayed during the pendency of the appeal regarding CON Review NH-RLS-0110-001, Harrison County Properties, LLC d/b/a Gulfport Care, construction of 90 nursing home beds in Harrison County, Mississippi

- The Chancery Court of Hinds County affirmed the Department's decision to grant CON Number R-0819 to Harrison County Properties, LLC d/b/a Gulfport Care for the construction of 90 nursing home beds in Harrison County, Mississippi.
- On June 28, 2012, the Supreme Court of Mississippi affirmed the Hinds County Chancery Court's Final Judgment, which, in turn, affirmed the Department of Health's Final Order approving the CON application of Harrison County Properties, LLC d/b/a Gulfport Care Center. The opponents did not file a Petition for Rehearing with the Supreme Court.
- On July 26, 2012, the Supreme Court issued its Mandate in the appeal, Harrison County Properties, LLC d/b/a Gulfport Care used the Mandate of July 26, 2012, as the effective date of its CON to commence the Certificate of Need period of CON Number R-0819.

The applicant asserts that the scope of the original proposed project involves the replacement and relocation of 90 nursing home beds previously operated by Miramar Lodge Nursing Home.

Miramar Lodge Nursing Home, a 180-bed nursing facility located at 216 West Beach Boulevard, Pass Christian, Harrison County, Mississippi, was destroyed by Hurricane Katrina. The applicant states that due to the complete destruction of Miramar Lodge Nursing Home, it was not feasible to repair or renovate the former building structure. Therefore, Miramar Lodge Nursing Home decided to close on August 29, 2005 due to the devastation from Hurricane Katrina. The *FY 2010 State Health Plan* states that a health care facility that has ceased to operate for a period of 60 months (five years) or more shall require a Certificate of Need prior to reopening. Miramar Lodge Nursing Home has been closed approximately 4 years and 8 months.

Subsequently, 120 of Miramar's nursing facility beds were placed in a de-licensed status with the Mississippi State Department of Health. Skyler Hattiesburg, Inc. currently owns the 120 nursing facility beds formerly used in the operation of Miramar Lodge Nursing Home. Miramar Lodge Nursing Home transferred/relocated 60 of their nursing facility beds to the Boyington in 2006.

The applicant states that Skyler Hattiesburg, Inc. will transfer its rights and interest in the beds to Harrison County Properties, LLC upon approval of the CON. The applicant provided a copy of the proposed transfer agreement between Skyler Hattiesburg, Inc. and Harrison County Properties, LLC. The applicant also filed a separate CON application requesting the relocation of 30 beds previously operated by Miramar to its existing facility (Windham House) in Hattiesburg, Lamar County, Mississippi.

The applicant suggests that the only feasible alternative for the replacement of Miramar Lodge Nursing Home would be the construction of a new building, at a new location, and a safer distance from the coastline. The applicant further suggests that the construction of a new building is needed in order to restore skilled nursing services on the Gulf Coast to the same level that existed prior to Hurricane Katrina.

The proposed replacement facility will be comprised of 40,320 square feet of new construction to be located at the intersection of Canal Street and Cypress Point Drive in Gulfport, Harrison County, Mississippi. The proposed facility is approximately 20 miles from Miramar Lodge Nursing Home's previous location. The applicant states the proposed facility's designated location is at a safer distance from the coastline and the threat of hurricane damage, yet accessible to area residents and other health care facilities. The applicant affirms that all precautionary measures to better withstand Hurricane season have been carefully accessed in correlation to the proposed project. The applicant received site approval from the Division of Licensure and Certification for the proposed location.

The applicant projects 63.5 new full-time equivalent personnel at an estimated cost of \$1,729,659 the first year for the proposed nursing facility.

C. Project Description

Harrison County Properties, LLC d/b/a Gulfport Care Center now requests Certificate of Need authority for a cost overrun to its CON No.R-0819. According to the applicant, the capital expenditure approved in the original CON is \$7,178,929, and the additional costs for this cost overrun proposal are \$715,516, resulting in a revised total capital expenditure of \$7,894,445 for the project.

The applicant asserts that the cost overrun project is due to the following factors:

- Delay in commencing construction, due to legal appeals, which contributed to increase costs of the project,
- The purchase of upgraded equipment and additional equipment for the facility to enhance the living experience of the facility's nursing home residents, and
- Addressed various issues and requirements that arose during the construction.

The applicant asserts that the additional capital expenditure of \$715,516 in the proposed cost overrun project will be financed from a commercial loan from Trustmark National Bank. The proposed cost overrun application contained a copy of a promissory note from Trustmark National Bank attesting to funding the proposed cost overrun project. The applicant states that the project is approximately 100% complete.

According to the applicant, there will be no change in staffing as a result of the proposed cost overrun project.

Staff contends that this cost overrun does not change the scope of the original project.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification approved the original site for the proposed project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, (1)(b), and (e) of the Mississippi Code of 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on October 22, 2015.

III. CONFORMANCE WITH THE STATE HEALTH PLAN AND OTHER ADOPTED CRITERIA AND STANDARDS

A. State Health Plan (SHP)

The original application was in substantial compliance with the *FY 2010 Mississippi State Health Plan*, in effect at the time the original application was submitted. The cost overrun project continues to be in compliance with the *FY 2015 Mississippi State Health Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, FY 2000 Revision*, in effect at the time of submission. This application continues to be in compliance with applicable General Review Criteria and Standards contained in the *Certificate of Need Review Manual, 2011 Revision*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$4,756,675	\$4,464,778	\$(291,897)
2. Construction/Renovation	0	0	0
3. Land	\$455,000	\$485,060	\$30,060
4. Site Work	\$411,716	\$250,025	\$(161,691)
5. Fixed Equipment	\$430,681*	\$1,663,972*	1,233,291*
6. Non-Fixed Equipment	0	0	0
7. Contingency	0	0	0
8. Fees (Architectural, Consultant, etc)	\$126,500	\$126,500	0
9. Capitalized Interest	\$223,297	\$129,050	\$(94,247)
10. Other Costs: legal and accounting fees	\$750,060	\$775,060	0
Total Capital Expenditure	\$7,178,929	\$7,894,445	\$715,516

*The applicant states that fixed equipment cost includes non-fixed equipment cost for the proposed project.

As previously mentioned, the capital expenditure approved in the original CON is \$7,178,929. The applicant asserts that the additional cost for the cost overrun proposal is \$715,516, resulting in a revised capital expenditure of \$7,894,445 for the project.

The proposed cost overrun is discussed under *C. Project Description*. The applicant states that the proposed project is 100% complete. The proposed cost overrun does not change the scope of the original project.

B. Method of Financing

The applicant proposes to finance the additional capital expenditure (\$715,516) through a commercial loan with Trustmark National Bank. The application includes a promissory note of \$6,030,000 from the bank to fund the cost overrun project.

C. Effect on Operating Cost

Harrison County Properties, LLC d/b/a Gulfport Care Center provided a revised projected operating statement for the first year of operation after completion of the project (see Attachment 1). Attachment 2 shows the original first-year projected operating statement of CON No.R-0819 (construction of 90 nursing home beds in Harrison County, Mississippi).

D. Cost to Medicaid/Medicare

The applicant states that the additional capital expenditure associated with the proposed cost overrun will not impact Medicare and Medicaid or other payors, because those programs do not reimburse nursing facilities based on direct capital cost.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. According to the Division of Medicaid, the project is estimated to increase cost to the Division of Medicaid. The Division of Medicaid opposes the project.

VI. CONCLUSION AND RECOMMENDATION

The original application was in substantial compliance with the *FY 2014 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2000*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. The proposed cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2015 Mississippi State Health Plan* and the *Certificate of Need Review Manual, 2011 Revision*.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Harrison County Properties, LLC d/b/a Gulfport Care Center for the cost overrun to its CON Number R-0819 for the construction of 90 nursing home beds in Harrison County, Mississippi.

Attachment 1

**Harrison County Properties, LLC d/b/a
 Gulfport Care Center**

First-Year Operating Statement (Revised)

	Year I
Revenue	
Inpatient Care Revenue	\$7,953,675
Outpatient Care Revenue	17,072
Gross Patient Revenue	\$7,970,747
Deductions from Revenue	0
Other operating Revenue	65,162
Net Patient Revenue	\$8,035,909
Expenses	
Operating Expenses:	
Salaries	\$ 2,815,929
Benefits	264,064
Supplies	668,825
Services	2,686,862
Lease	0
Depreciation	308,494
Interest	230,295
Other	<u>781,006</u>
Total Expenses	\$7,755,475
Net Income (Loss)	\$ 280,434
Assumptions	
Inpatient days	24,910
Cost per patient day	\$311
Charge per patient day	\$ 319

Attachment 2

Harrison County Properties, LLC d/b/a Gulfport Care Center

First-Year Operating Statement (Original)

	Year I
Revenue	
Inpatient Care Revenue	\$3,941,192
Outpatient Care Revenue	0
Gross Patient Revenue	\$3,941,192
Deductions from Revenue	412,438
Other operating Revenue	0
Net Patient Revenue	\$3,528,754
Expenses	
Operating Expenses:	
Salaries	\$ 1,576,549
Benefits	153,110
Supplies	233,880
Services	343,239
Lease	532,176
Depreciation	31,010
Interest	0
Other	939,683
Total Expenses	\$3,809,647
Net Income (Loss)	\$ (280,893)
Assumptions	
Inpatient days	20,025
Cost per patient day	\$ 190
Charge per patient day	\$ 197